Status of Report: **Public** **Agenda Item:** **7**

Meeting: **Combined Fire Authority**

Date: **8th February 2017**

Subject: **Budget Strategy 2017/18 to 2019/20**

Report by: **The Chief Fire and Rescue Officer and the Treasurer**

Author: **Mark Noble (Head of Financial Strategy, Leicester City Council)**

For: **Decision**

1. Purpose

The purpose of this report is to seek the authority's approval to the budget for 2017/18, and the proposed budget strategy and capital programme for the period to 2019/20.

2. Summary

2.1 Local government is in the middle of severe financial cutbacks, which will continue until at least 2019/20.

2.2 The fire service is no exception. The Revenue Support Grant payable to LFRS is projected to fall from £11.8m in 2013/14 to £4.2m in 2019/20.

2.3 Nonetheless, fire authorities have been partially protected, and cuts will be less than those made to the wider sector. The finance settlement in 2016/17 was less severe than had originally been expected.

2.4 In September, an efficiency plan was submitted to the Home Office, in order to meet the Government's conditions for a four year finance settlement (instead of the usual single year settlement). The plan has been approved, and a multi-year settlement achieved.

2.5 The service made substantial savings in the period to 2016/17, and is now in a position to propose a budget which has some (limited) capacity for operational growth.

2.6 Notwithstanding this, further savings will be required in the medium term as the Government seeks to eliminate the public sector spending deficit. The budget sets aside monies for the management of change, which we plan to use to reduce operational cost and help secure the longer term viability of the service.

2.7 A 3 year capital programme is also proposed in this report. This will be funded from revenue, without recourse to debt finance. As a consequence, the cost of servicing past debt will reduce over time, which also helps achieve the longer term goal.

2.8 The report proposes a council tax of £62.84, an increase of just below 2% on the tax for 2016/17. The authority's tax is currently the third lowest of all combined fire authorities, and will continue to be amongst the very lowest in 2017/18.

3. Recommendations

3.1 The authority is asked to:-

(a) Approve the budget strategy described in this report, and the formal (technical) budget resolution for 2017/18 which will be circulated separately;

(b) Approve the recruitment of 25 trainee firefighters, to commence work in autumn, 2017;

(c) Approve the capital programme described at paragraph 10, and authorise schemes to be committed where stated;

(d) Approve the changes to reserves described at paragraph 12, and authorise the Chief Fire Officer (in consultation with the chair, vice chair and treasurer) to commit expenditure funded from the management of change reserve;

(e) Note any comments received on the draft budget;

(f) Note my view that reserves are adequate during 2017/18, and that estimates used to prepare the budget are robust;

(g) Approve the treasury strategy and prudential indicators described in paragraph 15 of this report and Appendix Three;

(h) Approve the proposed policy on minimum revenue provision described in paragraph 16 of this report and Appendix Four;

(i) Note the equality implications arising from the budget, as described in paragraph 17;

(j) Approve the scheme of virement described at Appendix Five to this report;

(k) Authorise the Chief Fire Officer to increase special service charges, applicable specified amounts, and applicable travel and subsistence rates in line with inflation.

4. Budget Overview

4.1 The table below summarises the proposed budget and shows the forecast position for the subsequent two years (and reflects the multi-year finance settlement):-

Spending	**17/18 £m**	**18/19 £m**	**19/20 £m**
Approved budget 16/17	33.8	33.4	32.7
Technical changes:-			
• Inflation	0.4	0.8	1.4
• Other	(1.1)	(1.3)	(1.2)
Proposed growth	0.8	0.8	0.9
Proposed savings	(0.3)	(0.3)	(0.4)
Contribution to capital	1.4	1.1	1.1
Planning provision		0.3	0.6
Forecast Spending	**35.0**	**34.8**	**35.1**
Income			
Council tax	19.5	20.1	20.8
Business rates retention scheme	8.5	8.8	9.1
Revenue Support Grant	5.6	4.8	4.2
Other grants	1.0	0.7	0.7
Fire authority income	0.3	0.3	0.3
Total Income	**35.0**	**34.8**	**35.2**

4.2 A more detailed breakdown of the budget is provided at Appendix One to this report.

4.3 The above table includes the budget for 2017/18, and projected expenditure and income in future years. These forecasts will inevitably change, and will be reviewed when the budget for 2018/19 is prepared. The forecasts are subject to the risks and caveats described in section 13 below.

5. Council Tax

5.1 The authority's proposed tax for 2017/18 is £62.84, an increase of just below 2% on 2016/17. The tax will remain in the lowest quartile of combined fire authorities (and probably remain third lowest).

5.2 The authority's tax is charged to taxpayers across Leicester, Leicestershire and Rutland. It comprises only a small part of the amount payable by taxpayers: the bulk of the tax payable is charged by Leicestershire County Council, Leicester City Council and Rutland County Council in the three areas respectively.

5.3 In 2016/17, average Band D taxes in the three areas were:-

Authority Area:-	**£**
Leicester City	1,599
Leicestershire County	1,538 – 1,605
Rutland	1,773

5.4 The actual amounts people pay, however, depend on the valuation band their property is in, and their entitlement to any discounts, exemptions or benefits. The formal resolution to this report shows the amount payable for property in each band. It also shows the precepts payable by the City Council, district councils and Rutland.

6. Construction of the Budget

6.1 Constructing the budget commences with the approved budget for 2016/17.

6.2 The 2016/17 budget has been adjusted for the following:-

(a) Technical changes: these are cost increases and savings which take effect without any change in policy. They consist principally of the costs of inflation, offset by savings arising from planned staffing reductions, and debt financing;

(b) Proposed growth, all of which is designed to improve operational resilience;

(c) Proposed savings: in the 2016/17 budget strategy, the CFA approved reviews of fleet, premises and management. Target savings arising from these were built into the budget. Most of the target savings have now been achieved;

(d) A contribution to pay for the capital programme: this avoids the need to lease vehicles or borrow money;

(e) A planning provision has been added: this amounts to £0.3m per year, accumulating by £0.3m per year each year. The provision is a contingency, which reflects the difficulty in making accurate forecasts and acts as a hedge against uncertainty. It is only included in future years' projections, and is reviewed annually.

7. Technical Changes

7.1 Money has been added to the budget for **inflation**. This has been calculated as follows:-

(a) A 1% **pay award** has been assumed in each year of the strategy;

(b) **Price inflation** has been added to only a limited number of budgets. Other areas of service are therefore required to manage within the level of funding available in 2016/17. Whilst some costs (e.g. technology and utilities) are seeing price increases above inflation, experience in 2016/17 suggests this can be managed within overall budgets (in 17/18 at least);

(c) Money has been added to the budget for the cost of increases in contributions to the **local government pension scheme**. The Leicestershire scheme has recently been reviewed by actuaries, and employers' contributions will increase by 1.3% of payroll each year from 2017/18;

(d) £93,000 per year has been included for the costs of the new **apprentice levy**, equal to 0.5% of payroll. Some of this money can be used to fund the training costs of apprentices (see below);

(e) A sum of £300,000 per year has been estimated (from 2019/20) for increased contributions to **firefighters' pensions**. The government actuary is due to review the funding of the schemes, and increased rates are anticipated.

7.2 The budget has been reduced for other technical changes. These include:-

(a) Savings of £0.9m in 2017/18, falling to £0.4m by 2019/20, in the cost of paying firefighters. The Integrated Risk and Management Plan, which was approved last February, identified a target establishment of 334 to deliver the service described in the plan. In practice, through natural departures and secondees to other authorities choosing not to return, we now know that the target will be reached much sooner than was previously assumed;

(b) £40,000 (rising to £0.4m) has been removed from the budget to reflect savings in **capital financing** costs. These occur because lease rentals cease to be required once vehicles are fully paid for, and no new leases are being entered into;

(c) Savings of £0.2m per annum (rising to £0.4m by 2019/20) are expected to arise from firefighters transferring to the new **2015 pension scheme**. This is less generous than previous schemes, and transitional arrangements were created by the Government. As the transition unwinds, and more staff transfer to the new scheme, the service will save money.

8. Growth Proposed

8.1 The budget position allows scope for a limited amount of growth, and the following is proposed for the CFA's approval:-

(a) The addition of 15 new staff to the operational establishment. 12 will be employed to crew an additional tactical response vehicle at Loughborough, making permanent the temporary arrangements established in the 2016/17 budget. A further 3 are required to ensure day crewing systems at Melton, Lutterworth and Market Harborough are compliant with “grey book” terms and conditions. The cost of these 15 staff will rise from £0.4m in 2017/18 to £0.6m in 2019/20: the lower cost in 2017/18 arises because the new requirement will (in the short term) use current over capacity;

(b) Should the CFA approve the above growth, an immediate recruitment exercise will be commenced;

(c) Recruitment and training is a demanding process. To ensure recruitment does not have to take place too regularly, it is proposed to recruit 25 staff in the next exercise (which will exceed the immediate requirement). This will commit the service to one-off wage costs of £0.4m to £0.5m, which it is proposed to meet from the general reserve (see below);

(d) A one-off sum of £0.3m is included in the budget for training new recruits;

(e) It is also proposed to recruit 12 new apprentices, the cost of which will amount to £170,000 per year in a full year. This proposal recognises the Government’s drive to create new apprenticeships, and at the same time seeks to meet our longer-term need for new firefighters. It is planned to train the apprentices at a training establishment which is accredited for the purposes of the apprentice levy, thus ensuring there is no cost to the service (other than salary cost). It is unlikely that the apprentices will start much before 2018;

(f) A sum of £0.1m has been included to improve operational resilience. Services which directly support the front-line have been cut significantly to meet Government cuts, and this additional money will provide greater flexibility (particularly as we start a period of new recruitment). For instance, the service has no funding to provide for fire cover in the event of industrial disputes (to date, this has been financed from underspends elsewhere). This cost can be met as a result of over-achieving targets set for reviews (see below).

9. Savings

9.1 The approved budget for 2016/17 included an anticipated saving of £250,000 in 2018/19 rising to £350,000 per year by 2019/20. The target of £350,000 has been substantially achieved (with only £60,000 remaining). £290,000 has been saved in each of 2017/18 and 2018/19, which is in excess of what was originally targeted. It is expected that the full £350,000 will be achieved well in advance of 2019/20. In order to find money to improve operational resilience as described above, it is proposed to increase the target to £450,000 in 2019/20.

9.2 These savings have been achieved through:-

(a) Reduction of one area manager post;

(b) Review of the pay of the service's directors;

(c) Re-negotiation of our contract for protective equipment;

(d) Reductions in administrative staffing, taking opportunities presented when vacancies arose.

9.3 The service has recently concluded a review of its fleet management arrangements, which will reduce the number of new vehicles required. This will reduce the capital programme rather than the revenue budget, although savings in maintenance should be achieved in due course.

9.4 The premises review has concluded, and is the subject of a separate report on your agenda today. Over time, this may also result in savings to the revenue budget.

10. Capital Programme

10.1 Capital expenditure pays for works of lasting benefit. It can be contrasted with the revenue budget, which pays for day-to-day firefighting and prevention.

10.2 The table at paragraph 4.1 shows a contribution from the revenue budget to fund capital expenditure. This amounts to £3.6m over 3 years. In the 2016/17 budget, the CFA approved the creation of a new capital fund to meet the costs of capital expenditure – the forecast uncommitted balance on the fund will be £2.7m by the beginning of 2017/18. In total, therefore, £6.3m will be available to finance capital expenditure over the programme period together with any receipts from sales of vehicles or property.

10.3 The proposed capital programme is shown at Appendix Two. Appendix Two also shows how this will be financed from the capital fund.

10.4 In December, the CFA approved the fleet review, and the premises review is on your agenda for approval today. More detailed work is currently taking place in respect of both these reviews, which will result in a programme of planned work.

10.5 It is not sensible to propose a detailed programme for either fleet replacement or premises improvement/rationalisation in advance of this work. Consequently, the following approach has been taken:-

(a) The CFA's approval is sought to spend sums included <u>for 2017/18 only</u>. In the case of fleet, this means replacement of old, inefficient vehicles as described in that review (no appliances or special appliances will be replaced in 2017/18, given the decision to extend their working lives). In the case of premises, it means a sum of £250,000 for immediate planned maintenance requirements;

(b) A provision has been included for 2018/19 and 2019/20. Spending of these sums will be subject to further reports to the CFA, on conclusion of the work described above. These reports will be required to justify the sums sought.

10.6 In the case of fleet, the sums available from 2018/19 can be supplemented with the proceeds of the sales of appliances and other vehicles. Receipts in 17/18 are expected to be minimal, but will not be spent in 2017/18.

10.7 Additionally, in 2016/17 the CFA set aside £0.5m (now £470,000) to replace cars and light vans as they fell due (and thus avoid leasing). Following the fleet review, it is no longer sensible to consider this sum separately, and it will be rolled into the capital fund as part of the subsequent report. Any requirement for replacements in 2017/18 will be met from the capital programme allocation.

10.8 Sums set aside for firefighting equipment are not dependent on the fleet review, and procurement can commence subject to approval of this programme by the CFA:-

(a) A sum is provided for the replacement of hydraulic rescue equipment. This equipment enables firefighters to cut through materials to access and rescue a casualty, most commonly following a vehicle collision. Current equipment has come to the end of its useful life; technological advancements have led to the availability of smaller, battery powered tools which can be used for a much wider range of incident types. The sum provided is sufficient to replace 20 items of equipment;

(b) A sum has been provided for replacement thermal image cameras. These cameras use infrared technology to enable firefighters to see in extreme, smoke filled environments. The current equipment has come to the end of its useful life, and technological advancements have led to much smaller cameras that can be integrated into breathing apparatus or other items of protective equipment;

(c) Provision has been made to acquire breathing apparatus communications, a newly available technology. This enables firefighters to communicate with each other whilst wearing heavy duty protective apparatus that covers their faces.

10.9 A sum of £0.5m has been set aside for ICT modernisation. A number of key operational and administrative systems are inefficient, and require high levels of staff intervention. Some are no longer supported by the supplier. A key area of concern is the current incident reporting system which is provided by the Home Office, which is unreliable and often unavailable due to technological problems. All but six fire and rescue services now use commercially available software rather than the Home Office solution.

10.10 To ensure any investment in ICT is used to best effect, the service has commissioned a review of next steps which will prioritise the funding needs. The immediate expected requirements are for:-

(a) Replacement incident reporting system, as described above;

(b) Electronic fleet tracking system;

(c) Integrated learning management system;

(d) Premises risk information system replacement;

(e) “Views” performance management system replacement.

10.11 Work will also proceed with the IP telephony extension (approved in 2016/17).

10.12 Approval is sought for the Chief Fire Officer to determine how the sum set aside for ICT is to be spent.

10.13 A small balance is projected on the capital fund at the end of 2019/20, although this may vary as a result of the more detailed reports described above. Members are asked to bear in mind that the proposed vehicle programme for the next two years is lower than would have been expected, given the decision to extend vehicle lives (appliances which are 10 years old, and would have been replaced, will not be replaced for a further 2 years). Normal replacement programmes will of course follow once vehicles reach 12 years of age (i.e. there is a dip in investment for 2 years).

11. Resources

11.1 This section of the report describes the income available to the service (the bottom half of the table at paragraph 4.1).

11.2 The most significant source of income (£19.5m) is **council tax**. Council tax levels are set by the CFA, but the tax is collected on our behalf by the City, Rutland and district councils (the “billing authorities”).

11.3 The proposed council tax for 2017/18 is £62.84, an increase of just below 2% on 2016/17. Any higher increase would be subject to a local referendum. 2% has also been assumed for planning purposes in 2018/19 and 2019/20.

11.4 The tax is charged on properties, and reflects the number of properties advised by the billing authorities. Future projections assume a 1.25% increase each year in the relevant number of properties. These estimates anticipate some housing growth in the region, and are believed to be prudent.

11.5 The table at paragraph 4 also shows income expected from the **business rates retention scheme**. This scheme was first introduced in 2013/14, and includes two components:-

(a) A share of the business rates raised locally – in the case of the fire service, this amounts to 1% of the total;

(b) A "top-up" grant for authorities whose assessed needs are greater than their ability to raise rates. The service receives a top-up grant, but this is mainly because the percentage share of business rates we receive is so low.

11.6 Since 2013/14, top-up grant has increased in line with inflation, but no other changes have been made.

11.7 The position for 2017/18 is complicated by the recent rates revaluation, by which all rates in the area have been reassessed by the Valuation Office Agency. In Leicester, Leicestershire and Rutland, rateable values have increased by average amounts ranging from 7.8% (Blaby) to 17.1% (Leicester City). This is higher than the East Midlands average of 7.4%, and the national average of 9.6%. Whilst this means that the rates payable by individual businesses will change, it is not the Government's intention that this should affect the finances of local authorities. Consequently, the top-up grant has been adjusted with the intention of neutralising the effect of revaluation.

11.8 Top-up grants for 2017/18, and provisional grants for 2018/19 and 2019/20 have been announced:-

(a) 2017/18 – £5.0m;

(b) 2018/19 - £5.1m;

(c) 2019/20 - £5.3m.

11.9 The key uncertainty in respect of the revaluation is appeals – many ratepayers will appeal the new rateable values in the hope of achieving a reduction. In setting the top-up grant levels, the DCLG has implicitly assumed that rates will fall as a consequence of appeals. Whether or not sufficient has been provided remains to be seen.

11.10 The billing authorities have until 31st January to advise of rates income due in 2017/18. Their estimates will reflect their own views of likely appeal costs, but these will of course be only estimates (although better informed than mine, being based on local circumstances). For the time being, it has been assumed that the fire service will receive the same total income (rates plus top-up) after the revaluation as would have been received if the revaluation had not taken place. From this, a deduction has been made for additional appeals risk.

11.11 Final figures will be included in the formal resolution which will be available at your meeting.

11.12 In the longer term, the Government plans to move to 100% business rates retention "from 2020." A lot remains to be decided about how this new scheme will work, including whether the fire service is part of it at all.

11.13 As part of the settlement for 2016/17, the Government offered certainty until 2019/20 regarding the amount of **revenue support grant** we will receive. A pre-condition to accepting this offer was the submission of an efficiency plan. This was sent to the Home Office in August, and is available on the service's website. The Home Office has recently (December) approved the plan submitted.

11.14 **Other grants** include:-

(a) New Dimensions – this is payable for the maintenance of certain equipment which has to be made available to support other services when required. Around £0.9m per year has been received in the past, but this has recently been cast into doubt with the Government only confirming the grant for periods of six months at a time. There is a distinct possibility that the grant will eventually disappear, and the budget assumes the amount received will fall to £0.2m per annum by 2018/19;

(b) Firelink, for radio transmission systems; and

(c) "Section 31 grants" which are provided as compensation for various earlier changes in business rates which affect our share.

11.15 **Fire authority income** is income earned by the service itself. It chiefly arises from money received for siting radio masts on the service's property, and income earned by Forge Health. A limited (and reducing) amount is included for investment income.

11.16 The service will have available any surpluses on the **collection fund**. These arise when collection of council tax or business rates by the billing authorities exceed the budget for previous years. Conversely, where billing authorities perform worse than the budget, a deficit arises. At present, it is assumed that a surplus in respect of council tax (estimated at £0.3m) will be offset by a deficit in respect of rates. The position on the latter may not be confirmed until 31st January.

12. Reserves

12.1 The authority holds the reserves shown in the table below. The table also shows the forecast uncommitted balance on each reserve on 1st April, if the charges described below are accepted.

	Forecast Balance £m
General reserves	2.0
Capital fund	2.7
Management of Change	4.2
Business rates retention	0.2
Others	1.4
Total	**10.5**

12.2 **General reserves** are held as a buffer in case of unexpected problems or emergencies during the course of a year. Reserves were increased to £3.0m as part of the 2016/17 budget, in recognition of the risk environment at that time. A further £0.5m was added when the revenue outturn for 2015/16 was approved.

12.3 As described above, it is proposed that the cost of the expected over-establishment due to recruitment (£0.4m) is funded from general reserves, leaving £3.1m uncommitted.

12.4 When the CFA submitted its efficiency plan to the Government, it was acknowledged that 3 year certainty would provide the opportunity to look again at reserve levels. In practice, 3 year certainty has not made a significant difference to the level of risk the authority faces. However, in the light of all current risks (described at paragraph 13 below), it can be recommended that £1.1m is transferred out of the general reserve and added to sums available for the management of change. This will reduce uncommitted general reserves to the more usual level of £2.0m.

12.5 The **capital fund** exists to provide sufficient funding to finance the capital programme, and is topped up each year from the revenue budget. This is more fully described at paragraph 10 above, and Appendix Two. The balance shown above allows for commitments from the 2016/17 capital programme and is available to fund the 2017/18 programme.

12.6 The reserve for **management of change** was first created in the 2016/17 budget, by bringing together monies previously held for the costs of paying staff in excess of establishment, and the costs of severance. This created a single pot of money which could be used holistically for the management of change.

12.7 Money made available has been increased during the course of 2016/17, by contributing savings made during the course of the year. In particular, the establishment has reduced towards target levels faster than had been anticipated (this has also benefitted 2017/18 and later years, as can be seen from paragraph 7 above).

12.8 The estimated balance on 31st March 2017 will be £4.2m, if the recommendation above is approved. The key reasons for maintaining the reserve are:-

(a) To reshape the service in order to secure efficiencies which will help deliver longer term financial viability;

(b) To ensure the service has money to meet any modernisation requirements, particularly initiatives emanating from the Home Office (see paragraph 13 below);

(c) To secure one-off resources (such as staff) required to deliver service planning priorities;

(d) To procure items of operational equipment which improve emergency incident preparedness and resilience; and

(e) To fund the resource requirements associated with collaborative partnerships to address the vulnerability agenda.

12.9 It is noted that these resources are one-off, and can only be used for one-off pressures. The key theme is longer term savings. The Government's Autumn Statement (November, 2016) extended the previous Government's deficit reduction programme. Whilst figures are not available for the service beyond 2019/20, it seems highly probable that further cuts will be made in 2020/21 and beyond. Hence it is vital that the service takes the current opportunity to use one-off monies to reduce operational costs, thus helping delivery of long-term financial viability.

12.10 This report seeks approval to give the CFO (in consultation with the chair, vice-chair and Treasurer) discretion to commit monies from this reserve in pursuit of the above aims.

12.11 The 2016/17 budget set aside £0.2m for a buffer against future **rating volatility**. Given the likely impact of revaluation described above, it is recommended that this balance is retained until 2018/19.

12.12 The authority also has a number of minor reserves. The table below shows the estimated balance on each:-

	£000
Cars and light vans	470
Insurance reserves	433
Emergency services mobile communications programme contingency	326
Ill health retirements	153
Total	**1,382**

12.13 Of the above:-

(a) The cars and light vans reserve will be considered in the context of the fleet review, and is discussed above;

(b) Insurance reserves cover the authority for self-insured risks which are not met from external insurance;

(c) The mobile communications contingency exists to meet costs arising from any change required to national secure networks. Given the risks described below, this sum has been increased by £176,000. This sum is available because two former earmarked reserves (for part time workers and redundancy costs) are no longer required.

13. Risk Assessment and Adequacy of Estimates

13.1 Best practice requires me to identify any risks associated with the budget, and the Local Government Act 2003 requires me to report on the adequacy of reserves and the robustness of estimates.

13.2 In my view, the budget for 2017/18 is achievable.

13.3 The forecast position beyond 2017/18 is sensitive to change, and small changes can have a significant impact on available finances.

13.4 It is helpful to categorise risks between those affecting income and those affecting expenditure.

13.5 The most significant source of income is council tax, which comprises 56% of the total in 2017/18 (rising to an estimated 59% by 2019/20). Small variations in the assumptions made can make a big difference. However, the assumed taxbase increases are believed to be conservative. If the taxbase rises by 2% in each of

2018/19 and 2019/20 (instead of the assumed 1.25%), this will deliver an additional £0.3m of income each year by 2019/20.

13.6 Consequently, I believe the risk of council tax income being below forecast is low.

13.7 Income from the business rates retention scheme exceeds £8m per year. Over half of this is fixed through the top-up grant mechanism, with £3.5m to £3.7m due from local rates. This sum is not high in the context of the overall budget, but is subject to volatility:-

(a) Based on the level of rates growth achievable in the billing authorities;

(b) More particularly, the risk of the income being much less than this due to appeals against new rateable values.

13.8 This risk may be removed in due course if the fire service is removed from the business rates retention scheme altogether. In that case, current income would be substituted by Government grant.

13.9 Revenue Support Grant now amounts to just 16% of income, and will fall to 12% over the strategy period. In 2016/17, the Government offered, and we accepted, a 3 year certainty offer by which the grant figures are fixed until 2019/20. The Government has, however, reserved the right to withdraw the offer "in exceptional circumstances", which presumably means we will get less funding if the economy performs less well than expected (the impact of Brexit is as yet unknown).

13.10 Thus, there remains risk to the RSG forecasts for 2018/19 and 2019/20, but the level of risk is not believed to be high.

13.11 Key risks to the expenditure side are:-

(a) Whether the Home Office will expect the service to implement new initiatives, without providing additional funding;

(b) Any significant increase in inflation, particularly if this feeds through to operational salaries which are the largest component of the budget. Increases may arise from the recent reduction in value of the pound, particularly the price of vehicles and equipment given that the majority of items are sourced from outside the UK;

(c) Any additional liabilities arising from pension schemes.

13.12 The first of the above risks requires expansion: the Home Office is reviewing the national framework, and may create additional responsibilities for the service. Additionally, there will be pressure to modernise command and control, and emergency communications systems: this may result in new expectations, potentially with a significant price tag. These costs may or may not be adequately funded. Costs falling on the service are likely to require funding from the change management reserve.

13.13 The risks are mitigated by:-

(a) General reserves, which (if the recommendations to this report are approved) will be maintained at £2m;

(b) Conservative assumptions about future council tax income;

(c) The inclusion of a planning provision in future forecasts;

(d) A reserve of £0.2m to mitigate the risk associated with business rates appeals (or at least to buy time);

(e) Our policy of funding capital from the revenue budget, which will (over time) reduce the costs of debt financing;

(f) The existence of a reserve for the management of change.

13.14 I believe the authority's general and earmarked reserves to be adequate for 2017/18, and that estimates made in preparing the budget are robust. Whilst no inflation is provided for the generality of running costs in 2017/18, some exceptions are made, and it is believed that services will be able to manage without an allocation (as has been achieved in recent years).

14. Consultation on the Draft Budget

14.1 Consultation on the draft budget will take place with business rate payers (who are statutory consultees) and other partners. Any comments received will be reported to your meeting.

15. Borrowing and Investment

15.1 Local authority capital expenditure is self-regulated, based upon a code of practice (the "prudential code").

15.2 The authority complies with the code of practice, which requires us to demonstrate that any borrowing would be affordable, sustainable and prudent. To comply with the code, the authority must approve a set of indicators at the same time as it agrees the budget. The substance of the code pre-dates the recent huge cutbacks in public spending. In practice, no borrowing is proposed in the budget.

15.3 Attached at Appendix Three are the prudential indicators which would result from the proposed budget.

15.4 The service's treasury activities are carried out by the City Council on the authority's behalf. In practice, the service does not need to borrow and takes no risk on its investments (counter party risk is borne entirely by the City Council). Any opportunities to prematurely repay or reschedule existing debt will be taken, where this generates long term savings. However, as the cost of premature repayment is now prohibitively expensive, such opportunities are unlikely to be presented.

15.5 The CFA is required to consider various limits in order to comply with best practice. These are included at Appendix Three.

16. Minimum Revenue Provision

16.1 By law, the authority is required to charge to its budget each year an amount for the repayment of debt. This is known as "Minimum Revenue Provision" (MRP). The proposed policy is shown at Appendix Four.

17. Equality Implications

17.1 The Authority is committed to promoting equality of opportunity in service provision, through its operational policies aimed at reducing inequality of outcomes, its practices aimed at ensuring fair treatment for all, and the provision of culturally sensitive response and prevention services that meet local people's needs.

17.2 Since April 2011, in accordance with section 149 of the Equality Act, the Authority has been required by law to "have due regard" to the need to:-

(a) eliminate discrimination;
(b) advance equality of opportunity between protected groups and others;
(c) foster good relations between protected groups and others.

17.3 (This is the public sector equality duty).

17.4 Protected groups under the public sector equality duty are characterised by age, disability, gender re-assignment, pregnancy/maternity, race, religion or belief, sex and sexual orientation.

17.5 Advancing equality of opportunity under our public sector equality duty includes removing and minimising disadvantage, meeting the needs of protected groups which are different to others (particularly the disabled), and encouragement to participate in public life.

17.6 There are no proposals to reduce spending on services which would have a disproportionate impact on protected groups. The increased provision of service at Loughborough is likely to be beneficial to all service users in that area.

17.7 However, the budget strategy does recommend a proposed tax increase for residents. As the recommended increase could have an impact on those required to pay it, an assessment has been carried out to inform decision makers of the potential equalities implications.

17.8 The impact of the tax rise is 2p per week for a band D property, rising to 5p per week for the highest band of properties in the area (before any discounts or exemptions). This will not create a significant additional burden on residents, and the increase will help improve services from which all protected groups benefit. The likely impact does, however, need to be considered in the context of other changes which might affect low income residents.

17.9 In a nutshell, the likely impact on a household depends on whether or not the household is reliant on social security benefits.

17.10 One of the main risks to household income over the coming year is increased inflation. The November 2016 forecast by the Bank of England anticipates a CPI inflation rate of 2.7% in the third quarter of 2018, arising from the drop in value of the pound. Some industry sources expect an increase of up to 5% in food prices over the next year. Because food takes up a larger proportion of low income household expenditure, and their income levels have been squeezed by the Government's welfare reforms (ASDA tracker, June 2016), increases in food prices will have the most significant impact on these households.

17.11 Another area of cost increase could be fuel and oil, as a result of the decision by OPEC to reduce its supplies to the energy markets. Costs rose by 6% in September 2016 as result of this decision alone. It is likely we will see increases in fuel and energy costs over time as a result of this OPEC decision.

17.12 Incomes of households reliant on social security benefits continue to be squeezed with the Government's continued implementation of the welfare reform programme. There are a range of specific reductions alongside the far ranging freeze in the level of benefits until 2020. This will reduce the ability of low income households to respond to the above anticipated inflationary pressures, particularly in regard to the cost of food. The chart below gives an indication of anticipated decreases in household incomes by 2020/21, as a consequence of post 2015 welfare reforms:-

- Couple – one dependent child £900 p.a.
- Couple – two or more dependent children £1,450 p.a.
- Lone parent – one dependent child £1,400 p.a.
- Lone parent – two or more dependent children £1,750 p.a.
- Single person working age household £250 p.a.

Source: Centre for Regional Economic and Social Research/Sheffield Hallam University report: "The uneven impact of welfare reform – the financial losses to places and people" (March 2016).

17.13 Any increased costs will therefore be a problem for some households with limited incomes, as they will be squeezed by the next round of welfare reforms alongside anticipated inflationary increases of many basic household items such as food and fuel.

17.14 The weekly increase in council tax however is very small.

17.15 Of those with protected characteristics:-

(a) Age – older people are least affected, as they receive protection from inflation in the uprating of state pensions and 100% tax reductions are available under local reduction schemes. Working age people bear the impact of welfare reform reductions, particularly those with children;

(b) Disability – disability benefits have been reduced over time as thresholds for support have increased;

(c) No disproportionate impact is specifically attributable to the characteristic of gender reassignment;

(d) No disproportionate impact is specifically attributable to the characteristic of marriage/civil partnership;

(e) Maternity benefits will not be frozen, and will be increased in line with inflation. However, other social security benefits will be frozen, but without identifiable disproportionate impact on those with the characteristic of pregnancy/maternity;

(f) Impact on race depends on the extent to which those with white/BME backgrounds are on low incomes. The tax increase could have an impact on such households;

(g) No disproportionate impact is identifiable arising from the characteristic of religion/belief;

(h) There is potentially disproportionate impact on women, who are disproportionately lone parents. For those in receipt of universal credit or tax credits, a significant proportion of childcare costs are now met from these sources;

(i) No identifiable disproportionate impact is identifiable specifically from the characteristic of sexual orientation.

17.16 Billing authorities have mitigating actions in place to address specific hardship, although cost increases arising from other authorities' contributions to local council tax bills are likely to far exceed the cost of the LFRS tax increase.

18. Financial Implications

18.1 This report is exclusively concerned with financial issues.

18.2 There are no significant revenue costs arising from the proposed capital programme. There will be maintenance and running costs associated with new vehicles, but these are likely to be lower than the costs of vehicles coming out of service. There may be revenue costs arising from investment in ICT, but the aim is to use ICT to reduce cost in the medium term.

19. Legal Implications

19.1 As this report deals with next year's budget, section 106 of the Local Government Finance Act 1992 will apply to members in arrears of council tax. All other legal implications are contained within the main body of the report.

19.2 Compliance with the CIPFA Prudential Code for Capital Finance in Local Authorities is required under Part 1 of the Local Government Act 2003.

20. Appendices

Appendix One – Budget 2017/18

Appendix Two – Capital Programme

Appendix Three – Recommended Prudential Indicators

Appendix Four – Minimum Revenue Provision

Appendix Five – Proposed Scheme of Virement

Appendix One

Budget 2017/18

	2016/17 £000	2017/18 £000
Expenditure		
Employees	24,378	24,117
Fire pensions administration	253	259
Other employee related expenditure	466	746
Premises	2,106	2,144
Transport	1,130	1,020
Supplies and Services	3,179	3,178
Capital financing	4,703	3,538
Total Expenditure	**36,215**	**35,002**
Income		
Council tax	18,701	19,496
Business rates	3,504	3,557
Collection Fund Surplus/(Deficit)	202	
Business rates top up grant	4,945	4,988
Revenue Support Grant	7,169	5,609
Other grant	1,297	1,021
Fees and charges	397	330
Total Income	**36,215**	**35,002**

Appendix Two

Capital Programme

	17/18 £000	18/19 £000	19/20 £000	Total £000
Proposed Programme				
Vehicles and fleet replacement:-				
• Allocation for replacements in 17/18	850			850
• Provision for work following subsequent report		800	800	1,600
Premises				
• Planned maintenance in 17/18	250			250
• Provision for work following subsequent report		1,000	1,000	2,000
Firefighting equipment:-				
• Hydraulic rescue tool replacement	500			500
• Thermal image camera replacement	170			170
• Breathing apparatus equipment	180			180
ICT	300	200		500
Total proposed spending	**2,250**	**2,000**	**1,800**	**6,050**

	17/18 £000	18/19 £000	19/20 £000	Total £000
Proposed Capital Fund				
Balance on 1st April	*2,718	1,868	968	
Add monies from revenue budget	1,400	1,100	1,100	
Less Capital spending	(2,250)	(2,000)	(1,800)	
Balance on 31st March	**1,868**	**968**	**268**	

*Net of assumed slippage from 2016/17 programme.

Appendix Three

Recommended Prudential Indicators

1. Introduction

1.1 This appendix details the recommended prudential indicators.

2. Proposed Indicators of Affordability

2.1 The ratio of financing costs to net revenue budget:

	%
17/18	6.2
18/19	5.8
19/20	5.5

2.2 In line with our strategy of financing capital expenditure from revenue, these ratios are reducing.

2.3 The estimated incremental impact on council tax of capital investment decisions proposed in the budget, over and above capital investment decisions that have previously been taken by the authority is nil, because no new borrowing is proposed.

3. Indicators of Prudence

3.1 The forecast level of capital expenditure to be incurred for the years 2017/18 to 2019/20 is:

	£000
17/18	2,750
18/19	2,000
19/20	1,800

3.2 The capital financing requirement, which measures the authority's underlying need to borrow for a capital purpose, is shown below. Due to the new strategy of funding capital from revenue, this indicator is reducing.

	£000
17/18	18,554
18/19	16,434
19/20	14,520

4. **Treasury Limits for 2017/18**

4.1 The proposed limits on borrowing and leasing for 2017/18 are:-

	£000
Authorised Limit	23,500
Operational Boundary	20,500

4.2 The authorised limit is a legal maximum which cannot be exceeded. The operational boundary is a day to day ceiling which ordinarily would not be exceeded, and must be reported if it is.

4.3 Recommended upper limits on fixed and variable rate debt exposures are shown in the table below. The figures shown are the principal sums outstanding on borrowing but not leasing (in practice these are only relevant in the event of debt repayment or rescheduling):-

	£%
Fixed interest rate	100%
Variable interest rate	60%

4.4 The Authority has also to set upper and lower limits for the remaining length of outstanding loans that are fixed rate as a percentage of the total of all loans. This table also excludes leasing. Again, these limits are only relevant in the event of debt rescheduling. Recommended limits are:-

Upper Limit

	%
Under 12 months	30
12 months and within 24 months	40
24 months and within 5 years	60
5 years and within 10 years	60
10 years and within 25 years	100
25 years and over	100

Lower Limit

	%
Less than 5 years	0
Over 5 years	60

4.5 Other than money retained in the bank for day to day purposes, all investments are made with the City Council. Balances on this account will not exceed £0.85m, except when there is no reasonable operational alternative.

Appendix Four

Minimum Revenue Provision

1. This appendix states the Authority's policy for the repayment of debt incurred for capital expenditure. This is charged to the revenue account and is known as Minimum Revenue Provision (MRP).

2. For borrowing incurred before April 2008, and debt which is notionally supported by Government grant (essentially, older borrowing), MRP will be charged in line with previous regulations (essentially, 4% of debt is charged each year).

3. For all other capital borrowing, MRP will be charged to revenue such that debt is repaid at the same time as the Authority benefits from the capital expenditure. For new appliances, this would be the useful life of the appliance. For works to buildings, it will be the period over which the Authority benefits from these works.

Appendix Five

Proposed Scheme of Virement

1. This appendix explains the scheme of virement which will apply to the budget, if it is approved by the Authority.

2. The expenditure headings described at Appendix One shall act as budget ceilings, and provide limits on the amount which can be spent on each heading during 2017/18.

3. The Chief Fire and Rescue Officer (CFO) is authorised to vire sums within budget ceilings without limit, providing such virement does not give rise to a change in the Authority's policy.

4. The CFO is authorised to vire money between any two budget ceilings, provided such virement does not give rise to a change in the Authority's policy. The maximum amount by which any budget ceiling can be increased or reduced during the course of a year is £250,000. This money can be vired on a one-off or permanent basis.

5. The CFO is responsible, in consultation with the Chair and Vice Chair if necessary, for determining whether a proposed virement would give rise to a change of policy.

6. The Treasurer may vire money between budget ceilings where such movements represent changes in accounting policy, or other changes which do not affect the amounts available for service provision.

7. Nothing above requires the CFO to spend up to the budget ceiling for any service.